SUMMARY OF THE SAFE BANKING ACT

Our financial system has become dominated by institutions that are "too big to fail." Moreover, as FDIC Chairman Bill Isaac has said, they are "too big to manage, and too big to regulate." Former IMF economist Simon Johnson and James Kwak, a researcher at Yale Law School, estimate in the past 15 years the six largest U.S. banks have grown in total assets from 17 to 63 percent of our overall GDP.

We must reduce this concentration of financial power if we are to end Too Big to Fail and the risk it poses to our economy. Trusting the same regulators who abdicated their responsibility in the lead-up to the financial crisis will leave us vulnerable to future financial crises. Despite the claims of the megabanks, there are no economies of scale that justify such massive banks, nor would U.S. multi-national corporate needs go unmet by smaller (though still very large) U.S. global banks.

The prudent solution is to shrink these institutions to a manageable size at which they can actually be effectively regulated. <u>Accordingly, Senators Brown and Kaufman have introduced legislation that would impose sensible size and leverage constraints:</u>

<u>Size Limits on Our Largest Financial Institutions</u>

- Imposes a strict 10% cap on any bank holding company's share of the total amount of deposits of insured depository institutions in the United States.

- Establishes limits on the liabilities of large banking and nonbanking financial institutions:

  - A limit on the non-deposit liabilities (including off-balance-sheet ones) of a bank holding company or thrift holding company of 2% of GDP.

  - A limit on the non-deposit liabilities (including off-balance-sheet ones) of any non-bank financial institution that poses a risk to the financial system of 3% of GDP.

<u>Statutory Leverage Ratio</u>

- Codifies a 6% leverage limit for bank holding companies and selected nonbank financial institutions into law.

The idea of size caps is supported by **Thomas Hoenig**, President of the Kansas City Fed; **Paul Volcker**, former Chairman of the Federal Reserve; **Mervyn King**, Governor of the Bank of England; **Richard Fisher**, president of the Dallas Fed; **Robert Reich**, Secretary of Labor under former President Clinton; and commentator **Arnold Kling** of the *National Review*.